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DELIVERY THROUGH PARTNERSHIPS

PPP Journal

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What TIF?

Is Tax Increment Financing the future of public sector infrastructure?

www.publicservice.co.uk

John Tizard
Director
Centre for Public Service Partnerships

The year 2010 was a remarkable one for the UK public sector and public services. The impact of the global economic and financial crisis continued to dominate. The new Coalition Government signalled early on and then specifically in the Emergency Budget that it intended to cut public expenditure deeply and speedily with the twin aims of reducing the public deficit and creating a smaller state. The Comprehensive Spending Review reaffirmed these aims.

The global economy is still caught in the aftermath of the worst economic and financial crisis since the early 1930s. Whilst the UK economy is slowly recovering, some economists argue that the rapid and deep public expenditure cuts may halt or even reverse the fragile recovery.

The government must be very careful to avoid being overzealous with its cuts and too short-termist.

There is no point in cutting spending or making the wrong cuts if that weakens the economy. Economic growth would be stimulated by major capital investment and private sector growth, and enterprise will greatly benefit from modern transport systems. Private sector growth requires public sector, investment-led stimulus.

However, the reality is that the government is cutting capital as well as revenue funding. Major programmes such as Building Schools for the Future have been dramatically reduced. Whilst there is to be investment in the rail system, this will be less than previously planned and over a longer time period.

The government must recognise the value of investment in public services and infrastructure – especially given the needs across the country.

This does not always have to be public investment-led. Investment in public infrastructure remains attractive to private sector investors and pension funds. Over the last two decades, there has been a major growth in the involvement of the private sector in delivering public services in the UK and investing in, building and managing large sections of the public realm infrastructure.

Many, but by no means all, of these schemes have been procured as PPPs and financed as PFI projects. The current cadre of ministers have questioned PFI. They have expressed legitimate concerns about: its actual costs; the degree and reality of risk transfer; the potential 'lock in' of long-term contracts; and the extent of the competitiveness of the supply market. The cost of capital since the international credit crunch has merely added to these concerns. But it is arguable that without PFI, the major improvements and extension of education and health facilities of the last decade would simply not have happened. In some instances, PFIs have indeed proved to be more expensive than conventional public sector investment but this is not always the case when the full lifetime costs and risk transfer are taken into account.

It is certain that various forms of PPP will be critical to the future of the country's public services and infrastructure – but changes are required. We urgently need new models to meet new circumstances: new sources of finance, public and private; partnerships between the private and third sectors; and investment finance for social enterprises. There is a need for greater transparency of financial and operational performance, better risk allocation and management, more contractual flexibility, safeguards for employees, and greater accountability. Reform is long overdue – and capital investment is essential and needed now.

On both counts, there should be no delay.

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Editor

Welcome to the December 2010 edition of the *PPP Journal*, the first in our new online book format.

The intervening months since the last edition have, if anything, been even more engrossing than the earliest days and weeks of the Coalition Government. We watched with grim fascination the run up to October's Comprehensive Spending Review, which was dominated by questions as to where the axe would fall in public spending. Following on from Chancellor George Osborne's statement to the House of Commons, it was clear there were many losers and few winners amongst governmental departments. The Department for Communities and Local Government, for example, is facing the prospect of losing huge swathes of its funding in the coming years, although the pre-announced claim that the Department of Health would be protected has been realised.

In the PPP world, HM Treasury undertook a review of both the public private partnership and the concept of Competitive Dialogue, while interest in the possibility of widespread Tax Increment Financing (TIF) for future infrastructure projects in England and Wales increased, given public sector spending cuts and moves for new legislation that will allow English and Welsh councils to keep business rate receipts.

Our Digest section asks what 'localism' lessons the government could learn from the Total Place pilots. In the Overview section, we consider how Parliamentary Under Secretary of State for Communities and Local Government Bob Neill plans to 'restore the balance of power' to local councils, and discuss the failings of the Highways Agency's M25 widening project with David Finlay of the National Audit Office, while Trowers & Hamlin's Helen Randall looks at the Treasury's review of PPP and Competitive Dialogue.

In Finance, Tom Symons, of the New Local Government Network, and Sir Howard Bernstein, Chair of the Association of Greater Manchester Authorities' Wider Leadership Group, give their thoughts on the merits or otherwise of Tax Incremental Financing. Social Housing, meanwhile, features a discussion of the challenges of building new homes from Liz Peace, of the British Property Federation.

Finally, in our European section, we hear from the PPP units of France, the Netherlands and Spain on how their countries are coping with the pressures of the financial credit crisis.

As ever I hope you have an enjoyable read and welcome any suggestions you may have.

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What can the Coalition's localism agenda learn from the Total Place pilots?

In April 2009, the then Communities Secretary Hazel Blears announced 13 pilot schemes looking at how local services could be combined to provide better delivery, while making efficiency savings through the sharing of expertise and resources between different public bodies. The initiative was known as Total Place.

The Department for Communities and Local Government was one of those hit hardest in October's Comprehensive Spending Review, but Secretary of State Eric Pickles has nevertheless relentlessly driven forward the twin ideals of the Coalition agenda – the Big Society and localism.

In this edition, the *PPP Journal* asks what lessons can be taken from the Total Place pilots that can help local authorities to deliver the Big Society and localism in the face of cuts effectively amounting to around 27% over four years…

Integration, integration, integration

The recent proposals from Westminster, Hammersmith and Fulham, and Kensington and Chelsea to consider sharing every council service between the three councils could represent a step change for the delivery of the government's localism agenda on the ground.

The primary purpose of such proposals must be to defend and improve front line public services, and it is essential to protect the democratic sovereignty of the individual councils; but the key to success, both in this case and for the localism agenda more broadly, is in the establishment of a single integrated management team for the local area that is empowered by politicians to manage across the full range of public sector services. The management skills exist but they are currently deployed in individual organisations. It seems unlikely that a local area can realise the scope of service improvements and efficiencies needed without bringing them together.

The driver for this is the policy agenda that sets a challenging target. The government's new Localism Bill contains the legislation required to implement key elements of the localism and Big Society agendas. When combined with the October Spending Review's announcement of a 28% reduction in local government budgets, and Total Place, now renamed 'place-based service delivery' or 'community-based budgeting', it provides a strong impetus for change. On the one hand, there is more freedom, but on the other there is less money.

Infrastructure and PPP providers see the potential of localism and the opportunity for much greater integration

between public, private and third sectors and want to contribute. It creates, firstly, stronger community and customer participation in shaping public services to their needs; secondly, a redesign of services to meet customer needs; thirdly, a greater level of integration and co-location of services across public sector organisations in an area, to reduce duplication; fourthly, rationalisation and better use of the property assets held by the public sector in an area; fifthly, greater alignment of investment, and pooling of budgets; and sixthly a need for new, innovative sources of funding, particularly from the private sector.

However, the establishment of a single integrated management team for a local area remains the crucial factor. Few managers are empowered to manage across an area on a 'place' basis. Whilst there are isolated examples across the country of joint chief executives or joint management teams, these remain the exception and there is no precedent for the type of integrated management that is now required across the sector.

Once a single team is in place, success will come from a major drive to focus on the pressure points that count. For example, councils have formed a workstream focusing on procurement, capital and shared assets. Procurement represents 50% of a typical council's budget and accounts for £50bn per annum across local government, and there is now a significant number of councils and other public sector organisations that have buildings and related assets that are surplus to requirements. They need to carry out asset mapping, property data and spatial analysis to find out just how well their buildings are performing and being utilised. From this they need to develop short-term plans to co-locate staff and release redundant space, introducing flexible working to better use space and resource.

In the property area, the work of the West Midlands Property Alliance could prove a good example of integrated management. If it can implement fully the findings of its major asset management study, 'The Way Forward – Transforming Property Asset Management', which has highlighted the potential to yield £640m of savings across the region over the next 10 years (£477m capital receipts and £163m revenue savings), it will make a major step change in property rationalisation and integrated management. Replication of this work across the country would take integrated management a further step forward.

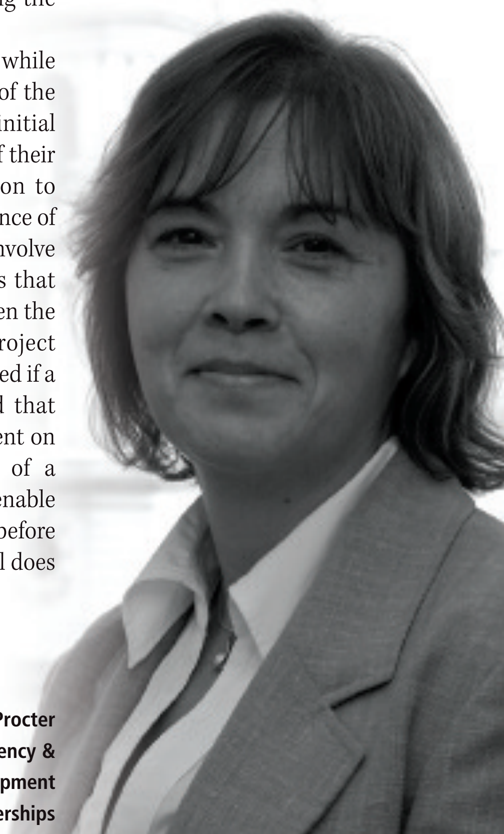
Chris Wilson
Executive Director
Jacobs

Building on the foundations

The Total Place pilots were an excellent example of how local public services pull together to consider how services can be delivered more effectively to their communities. Significant learning has been generated, which is recorded within the various Total Place reports. One could say that the pilots demonstrated localism in action. Conversely, it is also true that localism is where local people are actively involved in prioritising which services to review and how those services need to change. Whilst this was a feature of some pilot sites, it wasn't the norm.

As with any change in central government, there is a risk that ground gained by the Total Place pilots will be lost as most local areas struggle to get to grips with what localism means in practice and how they need to adjust to the economic situation they find themselves in. Hence, both central and local government might be minded to explore how to progress and build upon the total place pilots, as opposed to starting again when addressing the localism agenda.

It should be remembered that while much progress was made, many of the pilots had only completed the initial assessment and planning phase of their programmes with implementation to follow. Local Partnerships' experience of managing complex projects that involve multiple partnerships informs us that many challenges start to arise when the implementation phase of a project begins. Success will only be achieved if a partnering approach is followed that seeks mutually beneficial agreement on issues during the early stages of a project's development. This will enable partners to resolve thorny issues before conflict arises. However, the wheel does not need to be re-invented.



Danielle Procter
Director, Transformation, Efficiency & Capability Development
Local Partnerships

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A dress rehearsal

The Total Place pilots have been a virtual dress rehearsal for localism, and in my county, the experience has taught us two clear lessons. One is what localism can do without – the swathes of inspection regulations inherited from the last government. In Leicestershire, we discovered the public sector was reporting on more than 3,000 performance datasets a year – a mammoth task involving more than 90 staff and with a bill of £3.7m. That's a Roman cohort of council officers required to just feed the inspection machine.

The second clear lesson is what we can do together better in a time of unprecedented financial pressure. In Leicestershire, the county, city and health partners collectively spend £90m on the issue.

The issue of drinking provides a pertinent example. Improved joint working here would mean the council managing the night-time economy through licensing, preventive work with the police and the help of safer neighbourhood teams. It makes better health and financial sense to try and avert bingeing behaviour before a binge drinker is admitted to A&E – an ongoing trend currently costing the taxpayer thousands.

Total Place may soon be known by the new term 'place-based budgeting', but the philosophy and the need remain the same. Leicestershire is giving this principle a practical application as one of 16 trial areas chosen to run community budgets. This means concentrating those budgets normally spent looking after families with complex needs – social workers, the police, the NHS – in one pot.

So Total Place has set the stage. But the actors – our residents – will have a louder and clearer voice than ever, and they will expect us to use this research to deliver more with less.

Councillor David Parsons
Chairman, Local Government Association Improvement Board; and Leader of the Council, Leicestershire County Council

Handing the power back

The Coalition's localism agenda aims to 'turn government upside down' as part of the ongoing Big Society mission statement to increase efficiency, as *PPP Journal* reports…

Since the very earliest days of the Coalition Government, one word has been uttered by ministers, time and again – localism. It is one of the Coalition's major planks of policy in recognition of 13 years of New Labour that saw increasingly heavy levels of regulation being passed down from central government onto local authorities telling them how to run affairs in their areas.

The Coalition is convinced the 'Localism, Localism, Localism' mantra will strike a chord with the electorate, even to the point of taking the glare off the massive cuts facing local authorities via the promise of less bureaucracy and more localised policy freedoms. The detail finally came with the delayed publication of the bill itself, but speaking ahead of the launch, Local Government Minister Bob Neill told the Public Servant annual conference in London on 9th December of his hopes and aspirations for one of the Coalition's flagships policies.

Blaming the hold-up on difficult parliamentary scheduling and the need for further consultation with stakeholder groups, including the Local Government Association, Neill told delegates: "I can assure you that the bill will fit together with the Big Society by handing power back to communities and the people that serve them on the front line.

"People feel there is a big bureaucracy to find their way through and we want to remove those barriers. It is about government getting out of the way so that individuals can take action themselves and we will do this by providing resources, transparency and realigned services."

Neill faced some opposition from delegates at the event in Central Hall Westminster, who were concerned about the effect of public service cuts on women and children in particular. But the minister insisted that the tighter fiscal constraints could create a landscape of innovation, creativity and entrepreneurialism at town halls and beyond. He claimed that: "Money would have been tight whichever party won the general election.

"The cuts can be a catalyst for change and radical reform because a salami slice would be the wrong approach; for example, lots of councils are sharing chief executives and back offices while thinking intelligently about bringing a new local responsiveness to public services," said Neill.

Revealing that the bill contained 200 clauses, Neill justified its size by stating that there were huge amounts of local government legislation to be removed after years of micromanagement and targets under the New Labour administrations of Tony Blair and Gordon Brown.

"It's a big sweeping away measure, we are getting rid of lots of things that built up under the last government – it's a one-off, then we will leave well alone. That is why we got rid of RDAs and regional spatial strategies – they were centralising institutions," he said.

"The bill [represents] a sort of double devolution and then it will all be down to councils and communities. Local people will be able to take over local state-run services – we are being radical by turning government upside down. And the focus for public servants had been upwards to directives coming from above; we want to change that so that they are reporting down the line to the people in communities."

Neill revealed that a "dedicated barrier-busting team" of officials across government were already working with community groups interested in Big Society projects and community ownership of local services. In addition, the Department for Communities and Local Government was reducing its own budget by 40% to set an example for councils to follow.

"We are not imposing, we are listening and helping," he added. "Things like local area agreements were process-driven and required councils to spend huge amounts of time reporting to Whitehall. The bill challenges that we have to bite the bullet."

Ministers such as Bob Neill are clearly hoping the Localism Bill provides some relief during a period of political history thus far scarred by scenes of protests on the streets of Britain as the adoption of radical policies.

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Driving up costs

David Finlay, of the National Audit Office, discusses with Editor Michael Thame what the NAO believes went wrong with the M25 widening scheme developed by the Highways Agency…

A National Audit Office report into the widening of the M25 has outlined two major failings: that the Highways Agency was slow to trial Hard Shoulder Running (HSR) as a viable alternative to widening and that delays in the signing of contracts meant the widening project was exposed to the credit crisis, driving up costs. Here, the NAO's David Finlay tells Editor Michael Thame how these conclusions were reached.

How did the slow progress of the project result in higher financing costs?

In 2003, the government announced plans to widen sections of the M25 using a Private Finance Initiative (PFI) contract. So the Highways Agency ought to have been able to sign the contract well before the credit crisis of 2008. However, the contract was delayed by over 18 months, meaning financing rates went up very significantly owing to the credit crisis. This added £660m to the overall cost of the contract.

What evidence do you have of the Highways Agency being slow to consider HSR as an alternative to widening?

HSR, which allows motorists to use the hard shoulder at peak times, was first trialled in Europe in 1996. The Highways Agency announced its own trial in 2001, five years later. The agency then took another eight years before reaching a final decision that HSR was effective and that it was going to be widely used in this country. In 2009, the agency announced a £3.7bn programme to use HSR on various major roads, including two other sections of the M25.

As our report makes very clear, in our view, the agency simply did not do enough, first of all to accelerate the trials of HSR and then to assess both the costs and benefits of using it on the M25 as an alternative to widening. The agency should have kept its contracting approach open to allow the use of this method.

Can we take from the report that the Highways Agency was lax in its approach or is the report based on the benefit of hindsight?

It is not just applying hindsight. The Highway's Agency had announced a HSR pilot in 2001, long before the government announced plans to deal with the congestion on the M25. The agency was slow in conducting the trials, which were completed only in 2008. It was also slow at taking forward the procurement of the widening project when the contract was let in 2009. The agency's analysis was also incomplete in that it did not try to assess in detail what the costs and benefits of using HSR would have been on the M25.

Is the Highways Agency entirely to blame?

It was down to the Highways Agency to develop a project that would address the government's aim of reducing congestion on the M25. First of all, the procurement of widening was so slow that the project became embroiled in the credit crisis, which drove up costs by 24% to £3.4bn. Secondly, the alternative, potentially cheaper solution of HSR was not investigated sufficiently. We estimate the savings from a conventionally procured HSR solution fall in the range from £400m and £1.1bn. So whether the agency went for the option of a project to widen the M25 or pursued the alternative of HSR, it could have achieved materially better value for money.

Does this report shed any opinion on whether PFI is a suitable procurement method for a project such as this?

Our report deals with two comparisons – first of all, it compares the cost of the PFI widening contract with a conventional procurement. Secondly it compares the cost of the PFI widening contract with the alternative option of a conventionally procured HSR solution.

Our report concludes that the Highways Agency could have been much more challenging in its estimates of the costs it might have achieved under conventional procurement, whether it was through widening or HSR. Once the costs of the project went up in the credit crisis, then our view was that it was not at all clear cut that PFI, as opposed to conventional procurement, was value for money. Also, as our savings analysis shows, there was the potential to deliver the project much more cheaply through a publicly-funded HSR solution.

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Director of Corporate Finance and Infrastructure

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Speak clearly now

Helen Randall, Head of Public Sector Commercial and Partner at Trowers & Hamlins LLP, encourages changes to make the competitive dialogue process more efficient…

Eight months after the general election, civil servants at HM Treasury produced a 'Technical Update on Public Private Partnerships' and 'A Review of the Competitive Dialogue'. Curiously, for political parties who had campaigned on manifestos promising deregulation and major change, it would appear that both of these documents would suggest continuation of many of the same bureaucratic controls, while imposing more regulation by stealth, discernable only to those of us who have been working in the PFI and PPP industry for the last couple of decades.

Turning first to the Technical Update on Public Private Partnerships, readers will be reassured that the government has confirmed its commitment to PPPs, including those delivered via PFI and that 'such arrangements will continue to play an important role in delivering Britain's future infrastructure'. This is generous given the constraints imposed by the October spending review and those of us with long memories will recall that the PFI was a policy launched by the Conservative Government in 1992. It was subsequently adopted by the HM Treasury, given legislative support and was widely used by the New Labour Government.

The policies behind the Technical Update will change the way local authority PPPs are funded by central government and are intended to increase the transparency of the government's financial commitments, increase project scrutiny and value for money testing, and, in light of movements in funding markets, catch up on those and update the guidance relating to financing.

The first and most significant change for many of us is a reform of the PFI credit system, which is how central government funded local authorities' PFI projects. Under the old system, PFI credits were top sliced from Revenue Support Grant within the overall local government Resource Departmental Expenditure Limit. The 2010 spending review ended the PFI credit system with which the market has become familiar over the years. From April 2011 individual government departments will take on the responsibility for making grant payments for PFI contracts to local authorities. This is, unless carefully managed, likely to increase the bureaucratic hoops that need to be gone through before local authorities will obtain confirmation of funding for their PFI project(s) and there is also the potential for discrepancies in how the grant payments will be administered.

The second change is an increase in the requirements in publishing tenders and contracts. The latter is unlikely to be particularly popular with the private sector projects community given commercial confidentiality concerns and, as ever, a balancing act between greater transparency as to how public money is spent and the terms on which it is spent as against preservation of the integrity and probity of a high-value bidding process, where commercial and investors' interests need to be reconciled.

For those hoping that a change of government would bring a relaxation from the tiresome and time consuming process of obtaining approvals even for project-specific derogations to the standard terms of PFI contracts (SoPC4), there will be a disappointment.

The good news is that SoPC4 and the principle of standardisation, which is in everyone's interests, will be retained. Also, the Project Review Group will be retained to scrutinise PFI and PPP projects, particularly in terms of affordability, value for money, deliverability and readiness to engage the market.

Many will be familiar with the situation where just before commercial close, often in an attempt to plug an affordability gap, the authority decides to make a capital contribution. Where this happens late in the process this then raises concerns in relation to equality of treatment and potential breach of European procurement law but, more pragmatically, whether the authority will genuinely obtain value for money and know what it is letting itself in for by becoming, in effect, an investor in the riskiest stage of the project. Cynics might even say that capital contributions paid too early in a project undermine the basic PFI mantra that risk should be borne by those best placed to bear it – ie. in the construction phase, this should be by a private sector consortium that contains an experienced building contractor.

This elephant in the room has now been recognised in this update and HM Treasury has categorically stated that where an authority is considering making a capital contribution to a project, this now has to be considered as part of the authority's Outline Business Case in both the affordability and value for money assessments, and,

moreover, all proposed capital contributions will be assessed by Infrastructure UK. The issue of risk is addressed by stating that the overriding principle should be sponsor equity and private sector debt should absorb all the expected losses. Furthermore, it is emphatically stated that capital contributions that exceed 30% of the value of the capital works are unlikely to be approved by Infrastructure UK.

The third major change is that the axe has now fallen on the Treasury Infrastructure Finance Unit (TIFU), which was set up in order to overcome difficulties in the funding market, particularly in relation to the Greater Manchester Waste Disposal PFI. There is also the announcement of a strand of work called the 'development of value for money options for reducing the cost of operational contracts' – ie. cuts. This is not unanticipated given the Paymaster General's recent pronouncements. The ability to achieve operational savings in reality will depend very much on equity providers' willingness to negotiate the terms, the vintage of the relevant PFI transaction and, in particular, what provisions there are with regard to refinancing, market testing, benchmarking and replacement of subcontractors.

> **'For those hoping that a change of government would bring a relaxation from the tiresome and time consuming process of obtaining approvals even for project-specific derogations to the standard terms of PFI contracts (SoPC4), there will be a disappointment.'**

Finally, the Technical Update addresses financing. There is a recommendation that for novel, complex or large projects where the financing package involves a significant proportion of lenders in the market, early lender involvement 'in some form' is likely to be appropriate. What the guidance does not address is the more thorny issue as to how the funders' costs of involvement at an early stage of the project will be paid for. Given constrained public finances, this is a nettle that needs to be grasped. Putting it bluntly, is the public prepared to pay the costs of funders' involvement in the early stages of a project, especially where there is likely to be a debt funding competition? The earlier the involvement, the greater the cost that, even if amortised over the concession period will, in this current economic climate, be subjected to public scrutiny. Surely it would be more helpful for the guidance to suggest precisely the level of involvement that funders should have early on and how their costs should be treated? This will help maintain a level playing field and set an industry standard, given appropriate consultation with the market and the BBA.

The update looks at debt funding competitions in particular and it is now unambiguously stated that authorities should always reserve the right to require the preferred bidder to run a debt funding competition. It is to be hoped that authorities will take sensible financial advice to ensure that debt funding competitions are not sought where the funding market is thin. In relation to this, the update exhorts authorities to be 'well informed about the state of the financing market to enable them to make independent judgements about the deliverability of financing terms submitted by bidders'.

Turning to HM Treasury's Review of the Competitive Dialogue, this has been in train for 18 months. It is a broadly helpful but not entirely unsurprising piece of guidance and, in some cases, begs some questions as to how some contracting authorities might have been addressing the competitive dialogue in practice.

It includes some very sensible, if somewhat obvious, suggestions that prudent authorities will, one hopes, have been doing anyway – for example, scoping which issues need to be discussed in dialogue, ensuring a realistic schedule of meetings incorporating time to address internal approval processes and the establishment of procedures for close of dialogue before entering procurement.

Interestingly, there appear to have been a rash of inconsistent training courses on the competitive dialogue that have apparently contributed to what HM Treasury refer to as a 'lack of upskilling in procurement professionals'. Clearly, there needs to be better training, preferably carried out by those who have actually gone through a decent number of competitive dialogue procedures and emerged successfully at the other end.

What is of concern, but perhaps not a surprise, is that badly run competitive dialogues increase everyone's costs and this guidance makes some valiant attempts to instil commonsense and encourage commercial awareness in those contracting authorities that may not have run competitive dialogue procedures efficiently.

Ultimately, what the review does not say is that it is in everyone's interests to make the competitive dialogue procedure more efficient because every pound spent on bidding is a pound less spent on the provision of public services. Those of us who have been involved in the projects industry for some time now know that it is in the long-term interests of both the public and the private sectors to run the competitive dialogue procedures productively and efficiently.

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A sharp refocus

The aftermath of the spending review offers an important opportunity to transform the public sector and deliver cheaper, more efficient services, believes Tiffany Cloynes, of Cobbetts LLP…

Times are tough – and they are only going to get tougher as the public sector faces radical reform and cost cutting over the next decade in the wake of the spending review. Urgent action must be taken to reduce costs and improve and refocus service delivery, whilst maintaining key public services. As great as the challenges undoubtedly are, there now exists significant opportunities to reshape the way in which local authorities deliver services, and the spending review could prove a catalyst for much needed change and reform. Essentially, the challenge will be how to deliver 'better for less'.

> **'The major challenge to the short-term aim is to maintain or even improve productivity against a backdrop of low cash and low morale.'**

In effect, we are looking at the partial 'privatisation' and total restructuring of public sector services. This is likely to involve a move away from delivery to commissioning and, with that, the challenges of driving down costs while improving the efficiency and value delivered by commissioning. One of the key themes emerging from the Sir Philip Green Review is the pressing need to deliver efficient buying and the exploration of simpler methods of procurement that satisfy OJEU (Official Journal of the European Union) rules but also deliver consistent and better value for money.

In addition, we may see an increased appetite for shared services and collaborative working. Consideration will need to be given to the different types of collaborative working model, to establish what outcomes are required by the arrangement, and how best to frame the working arrangement around such requirements.

The changes are happening quickly. Public sector bodies must reduce their workforce by April 2011, following which 7.5% of workforce is to be reduced over the rest of the year. There is much for local authorities to consider, for example, which services will be delivered, how and by whom? Which services are mandatory, and which are discretionary? What scope is there for changes to service or to share service provision or outsource?

Public sector bodies must also prioritise programmes and policies, identifying which must be retained and which must be scaled back or eliminated. For those that are to remain, there will be a need to identify common aims, to create a stable platform for delivery of priority projects, to redesign local authority delivery, and establish how to appoint, train and reward those who participate.

Far from diminishing the possibilities for private sector partnerships, the changes in the public sector and the lack of capital funding are driving shared services, outsourcing and restructuring agendas. In order to make a real difference however, it is important that potential private sector partners consider the context within which decisions are to be made – the obvious effects of the global and UK recession, the public sector deficit and budget cuts in terms of revenue and capital are only the beginning.

And what now for potential funding streams? We may well see a greater role for Asset Backed Vehicles, JESSICAs, JEREMIEs or ERDF funding. Tax Increment Financing (TIF) may also play a considerable role in the future. This is a funding mechanism that will enable local authorities to borrow against locally raised business rates. Local authorities can then use that borrowing to fund key projects.

The challenge can be split into three stages, the first of which is cost reduction. Achieving this in the short term will allow public sector bodies time to focus on the more complex issues.

There are a number of ways in which cost reductions can be achieved. Cutting expenses is one option, and organisations may need to address the need to reducing staff costs by introducing temporary contracts and reducing working hours. A comprehensive review of property and assets with the aim of reducing unnecessary property occupation costs and achieving more from the asset base is also likely to be a valuable exercise.

There is no escaping the fact that some politically sensitive decisions will need to be taken, such as cutting funding to discretionary services, like libraries and sports centres, cancelling projects and reducing service provision or levels of service provision. These are relatively straightforward ways to achieve savings, but they are nevertheless painful to deliver – and the short-term success is likely to be difficult to maintain over longer periods.

Secondly, improving efficiencies is something that could be viewed as an intermediate aim. This may involve

The Sir Phillip Green Review highlighted the pressing need to deliver efficient buying and find simpler methods of procurement

analysing financial management and opportunities to share services and resources. Public sector bodies may also look at improving management of their external advisers and their costs, and look for opportunities to maximise any added value benefits. There may be efficiencies to be made on the HR side, too, such as reviewing pensions arrangements and incentives.

In the long term, the third stage of focus should be on strategic transformation. As part of this, public sector bodies will need to assess their spending priorities – what stays and what does not – and look at the role of retained funding sources, such as JESSICAs and JEREMIEs, and their impact going forward. New funding in the shape of TIFs will evolve but, as yet, the detail remains to be worked up and it isn't clear whether ceilings will be placed on the levy or, correspondingly, the ability for local authorities to use prudential borrowing powers.

The private and third sector roles must also be examined, looking at joint commissioning, funding and delivery to achieve the best value for money. Part of this will involve exploring different procurement routes that encourage, and do not stifle, participants in order to create effective, efficient commissioning of services and management of contracts.

The public sector is entering something of a new age – without doubt, there are many challenges ahead, but the key will be whether the spending review can also deliver freedom and flexibility.

How the public sector responds to the challenges will, of course, differ according to the leadership and priorities of individual authorities and bodies. The delivery of the recommendations of the efficiency review will also be critical. But authorities and private sector partners need to be aware that efficiency cuts can be 'slippery', and very difficult to capture and quantify.

The major challenge to the short-term aim is to maintain or even improve productivity against a backdrop of low cash and low morale. Once certain actions have delivered the required cash savings, there will be a need to establish what happens to those savings – is there a direct correlation between cost saving or budget control and reinvestment?

The main issue when it comes to strategic transformation is the question of how it can be achieved in the context of the significant proposed reforms and different political agendas, particularly where there is little funding to retain the transformation agenda or for upfront investment.

For efficiency savings to have a real impact on the way that government works, it is vital that the public sector and the private sector treat these challenging times as a chance to effect radical change. Now is an opportunity to take a role in the reshaping process, which has the potential to change the way the whole country works for the better.

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New dimensions

Partnerships between local authorities and the private sector are the future of efficient service delivery, suggests Darryn Gibson, of Serco Local Government, to Editor Michael Thame…

The post-Comprehensive Spending Review environment has become even tougher for local authorities, as demands for expanded service portfolios and improved quality standards coincide with spending cuts that are historic in their range and depth. Serco's Darryn Gibson tells *PPP Journal* Editor Michael Thame how partnerships between public and private sector organisations are helping local authorities to deliver both efficiencies and service improvements.

'Given the severity and probable longevity of the current crisis, we simply cannot afford confrontational or adversarial relationships between the public, private and third sectors.'

In which areas are local authorities able to make the greatest savings?

There are four critical success factors that will help local authorities save more while improving the quality of their service provision in years to come. These are the ability to share knowledge better; to engage citizens in defining and driving the changes that affect them; to tailor services to local needs for optimised outcomes; and to achieve positive cultural change based on new, more efficient ways of working. Changing the way rewards are made to ensure outcomes become the top priority – both within public sector organisations and external providers – will be an important step in this evolution. In addition, competition between public, private and third sectors to meet new 'payment on delivery' criteria can help stimulate innovation, which in turn can deliver both cost savings and service improvements.

ACCESS, a partnership owned equally by Glasgow City Council and Serco that is tasked with transforming ICT services and property management, demonstrates some of these priorities in action. Greater citizen engagement and outcome-based service delivery will both catalyse – and be the product of – cultural changes across public sector organisations and their partners.

Every public body needs to make efficiency savings, and collaborations between local authorities, service providers and private sector delivery partners can help avoid duplication

Similarly, a new contract with Hertfordshire County Council allows the county's 10 district councils and its police authority to tap into its shared services and enhanced capabilities, enabling them to share in the county council's new efficiencies. This model can be replicated in other counties and regions that have an equivalent hierarchy of public service provision.

This has the potential to be an increasingly important and valuable model in years to come, as public and private sector organisations increasingly seek to share knowledge and expertise gained in one field for the benefit of another. Such pooling of expertise should not just take place discretely within an organisation. We believe that creation of place-based networks, including local authorities, other service providers and private sector delivery partners can provide major future savings

Saving public money can be a difficult balancing act, and value is very much the watchword in the current climate

by avoiding duplication, creating better relationships and sharing up-to-date information.

Do you feel there will be more outsourcing of local authority services in the years to come?

If there are to be more opportunities to support local authorities, it will be because local authorities want to work with people they trust. Given the severity and probable longevity of the current crisis, we simply cannot afford confrontational or adversarial relationships between the public, private and third sectors.

But trust has to be earned and that can only happen through the delivery of a core service that delivers the value that ultimately serves as a basis for growth in the relationship itself and the scope of any opportunity it provides. With this in mind, I am confident that there will be opportunities, particularly as certain functions become the responsibility of more local organisations in which local authorities will have a major role to play. These organisations are likely to have an increased need to work alongside companies that deliver their services transparently, take their share of the risk and recognise that a true partnership is the accumulation of positive experiences over time.

By working together, the public and private sectors are able to innovate for the benefit of public services. Serco's recent IT initiative, in Partnership with GB Group and Microsoft, has enabled the development of a unique service solution that allows citizens to verify their identity remotely when accessing information or entitlements from a local authority. With the new system, local authorities can provide a full range of online services once the customer has registered their personal details the first time they use it. This makes it highly convenient for citizens, eradicating the need for many paper-based transactions.

The first local authority to adopt it is the London Borough of Enfield, which has confirmed it will be introducing the first phase of the new online service in January 2011.

To what extent do you feel that the PPP sector will move from infrastructure towards service provision in the future?

The demands being placed on local authorities and other public sector bodies are changing radically and at immense speed.

For that and other reasons, we believe that the future involvement of private sector businesses in the local authority supply chain will be more market-driven than ever before, as councils seek more innovative and complete solutions at the best value they can find.

At Serco, we are seeing new requirements from local authorities in which the lines between infrastructure and service provision are becoming less defined. In our view this will mean placing greater emphasis on cooperation and collaboration, both with our local government customers – for example, ACCESS, the formal joint venture in partnership with Glasgow City Council – and with third parties as part of consortia.

I believe, however, it is essential that any blurring of the lines does not compromise or muddy responsibilities and accountability in any contractual partnership – this also ensures that communities benefit from the specialist expertise of each member. For instance, an important example of the consortium approach is currently under way at the Forth Valley Royal Hospital in Stirlingshire, a new build that opened earlier this year (2010). In a UK first, showing how service quality requirements have driven the building's design and construction, the hospital includes corridors and lifts designed to be used exclusively 'behind the scenes' by a fleet of self-guiding robots. Their role is to keep patient areas free of trolleys and other clutter, help to reduce infection risks and free up support staff to focus on priorities for patients.

This is one glimpse of the future, as well as being an inspiring picture of the more cooperative and engaged service delivery we will need in years to come. What's more, it provides an image of how private sector innovation can add a new dimension to ensuring the health of local communities.

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A LEP of faith

Steve Geary, Skills Strategy Director of CITB-ConstructionSkills, is confident that the construction industry can work well with Local Enterprise Partnerships to help spur the UK's economic revival…

During a recession, the construction industry tends to be one of those hit hardest, as projects in sectors such as housing, roads or schools are delayed or cancelled. However, despite the financial gloom of the last three years culminating in October's Comprehensive Spending Review, there are signs that the economy is improving. Official figures have shown quite impressive growth for the construction sector, although the Office for National Statistics recently downgraded some of those figures. It is clear that many companies still face a real struggle, there is still a long way to go, but – providing confidence across the eurozone is maintained – there are reasons to be optimistic about the future.

The Coalition's idea of Local Enterprise Partnerships (LEPs) is one of a number of new initiatives that could have a positive impact on promoting economic growth. However, it needs to be looked at as part of a package of policy changes that have emerged following the CSR announcements, which signalled changes to capital spend across Whitehall. Building Schools for the Future, for example, is being reshaped into a smaller programme. However, although there have been reductions in the planned expenditure, there is still a significant sum within government departmental budgets totalling approximately £250bn, although not all of this will benefit the construction sector directly.

The role that LEPs can play in ensuring this capital investment is used to support local economic growth has yet to be tested. Most of them are still forming their boards and strategies, but we think that there are good opportunities to work with them in showing them the importance of the construction sector as a key underpinning sector to drive local and national growth. Initially, we had some concerns that they may not immediately think of the construction sector as being important because there has been so much emphasis on new industries and new technologies, but that would be a misconception. Even though it has been hit hard by the recession, it is still an industry that contributes 8% of GDP and there are more than two million people working in the sector. We are, therefore, encouraging all LEPs to make sure that the construction sector is represented on their boards.

Despite being hit hard by the economic crisis, the construction sector nevertheless contributes 8% of the UK's GDP

Opportunities

We want to sit down with LEPs to set out for them the opportunities that do exist. There are lots of ongoing infrastructure projects, and despite the cutbacks, there is still funding going into programmes such as schools, albeit on a reduced level. Further opportunities present themselves in the form of road building programmes and new nuclear power stations. Everybody, of course, would like these programmes to be bigger, but we also understand that the government has had to make difficult decisions on when and where it can spend taxpayer's money.

One area where every LEP must take construction seriously is the need to reduce carbon in buildings, and

The need to reduce carbon in new and existing buildings alike is a chief concern for the construction industry

that also means new buildings being built to more eco-efficient levels, we have to tackle the retrofitting of existing buildings. As the chief construction adviser to the government has reminded us, this is probably going to represent the business plan for the construction sector for the next 40 years.

Every local authority in the country has both housing that it owns or influences or has significant private sector housing. It is in this area where we think there are real opportunities to work with them through the new LEPs. There is funding available, such as the new Regional Growth Fund and other funding flowing from the Skills Strategy. There is a common agenda here where the construction industry can work with the emerging LEPs to pump prime activity that will help us meet our environmental commitments.

In some cases, there will be opportunities linked to projects, such as rail network upgrades – the London Underground, Crossrail and Tyne and Wear Metro upgrade being notable examples. These also need to be factored into the future plans of LEPs.

Storing up problems

All this points to a positive future – that construction is an industry with a lot of potential, but one aware that the lean times are not behind it just yet. Most economists and commentators would say the construction industry is going to experience slower growth over the next few years than we have seen in the previous decade. Certainly in the next two or three years it is probably unlikely that we will see growth at the same levels as previously.

But we also have to recognise that there is pent up demand – in the case of new housing for example, which has been severely hit by the recession for all sorts of reasons, we still are not building enough houses to meet the underlying demand, whether it is for affordable homes or for people with families who want to upgrade. We are just storing up problems for the future around housing. Clearly, if the financial climate changes and people are able to borrow more easily then we could see some sectors starting to experience above-average growth. But we are not seeing that at the moment and it is likely to be challenging in 2011 as well.

Regional variation

What we are also seeing is regional variation. Growth is different between England and Scotland, Wales and Northern Ireland, and between areas within these countries – for example, the East of England, and Cambridge in particular, is seeing good growth, but rural areas less so. All of this brings particular challenges in making sure that we have the right people, with the right skills, in the right place, at the right time.

A recent study revealed that the nation's more resilient areas are often those that rely less on public sector jobs. This is a challenge the Coalition Government recognises, aiming to use the Regional Growth Fund to support some rebalancing of the economy in areas where there has been a high dependency on the public sector. Failure to achieve this creates the risk that we will see different speeds of growth around the UK, with the potential for overheating in areas like London and the South East and slower growth and employment opportunities in other parts of the country.

The message from government is that it wants to see greater streamlining of regulations that impact on local planning, and clearly something has got to be done around procurement. Clarity is needed about what the advantages of the LEPs will be, compared to being influenced by Whitehall. However, we have engaged with some of the LEPs and we are optimistic going into those discussions. There is a willingness to look at things in different ways.

We are certainly not out of the woods yet, but there are so many opportunities out there and by working with newly-formed LEPs, the construction industry can definitely play its part in helping the country through these difficult fiscal times.

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Liberating local?

The Coalition's localist ambitions have paved the way for councils to use TIF, but the temptation could be to retain central control, writes the New Local Government Network's Tom Symons…

The announcement by Nick Clegg to grant councils new borrowing powers – known as Tax Increment Financing (TIF) – represents, at long last, a slither of hope for the prospects of continued capital investment over the next five years. At a time when the need for councils to stimulate economic growth within their communities is paramount, there will be limited grant available from the centre to do so with. The economic downturn has severely limited other capital finance options, such as Section 106, capital receipts and private development, meaning that councils are desperately searching for new alternatives. It is of huge significance, therefore, that the localist ambitions of the Coalition have paved the way for councils to use TIF.

While TIF represents a significant win for local authorities, not least in conquering the stifling dislike of hypothecated taxes within the Treasury, the extent of the potential will be defined by the limits placed on new borrowing freedoms. More details were provided in October's Comprehensive Spending Review and councils are now aware of the latitude there is to use TIF as a vector to drive local economic development.

As a bare minimum, the sector wanted a limit placed on borrowing, estimated by Ray Mills of PriceWaterhouseCooper, a leading expert on TIF, to be £500m per year. In addition, ultimate responsibility should be retained by the Treasury, meaning each TIF scheme will have to meet specific central criterion before approval can be granted. Finally, its implementation could be as late as 2013-14, possibly too late for some communities' more acute investment needs.

> **'…with so few options in the capital finance landscape, it is imperative that TIF extends as much latitude as possible to local authorities.'**

These limits are not without good justification. The rationale for TIF rests on the principles of the lack of additional growth and lack of displacement of the growth that is generated. The impact of the borrowing on the national balance sheet means central government will want to keep a tight rein on its limits. This makes TIF a real test of the localist rhetoric of the Coalition. Is this the beginning of a more mature, independent and facilitative central-local financial settlement, or will the temptation for the centre to retain control limit the benefits we could see arising from the use of TIF?

Whatever the eventual detail of the policy, English local authorities can take instruction from the use of TIF in the US and the UK's first pilot, a waterfront development in Edinburgh. In the US, multiple taxation revenues, such as property, land and sales taxes, are pooled to maximise the use and benefits of the TIF. Local government in the UK would have the option of bringing in council tax, but at present would not have control over the use of uplifts in VAT revenues to finance borrowing.

Furthermore, in the US there is a variable approach to community consent, with referendums used in some instances but by no means all. Whether English authorities should institute referendums on TIF is a decision best left to individual councils. Referendums in the US are usually held when a 'general obligation bond' is being issued, but in the absence of these in the UK it may not seem necessary to ballot the public. However, by exposing the local taxpayer to the financial risk of economic development, a consensual approach to public engagement would be beneficial for local authorities.

Between Clegg's announcement and the eventual application of TIF in England, there lies a huge distance to travel in terms of the detail of the policy and the capacity of local government to implement it. But with so few options in the capital finance landscape, it is imperative that TIF extends as much latitude as possible to local authorities.

If given sufficient flexibility, councils can be put in a position to independently stimulate local economic development and jobs for their communities, a vital task over the course of this parliament.

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A focus on place

Sir Howard Bernstein, Chair of AGMA's Wider Leadership Team, talks to Editor Michael Thame about the prospects for Tax Increment Financing across the Greater Manchester conurbation…

Scotland is doing it, England is looking to do it, and the Core Cities Group desperately wants to do it. From that starting point, it would appear that Tax Increment Financing (TIF) is gaining a great deal of support as the new way to procure local regeneration projects in the UK. The idea of funding against future tax revenues, which requires a legislative change in England and Wales, involves a certain 'gamble' in predicting what those business rates will realise, but it is a way of obtaining funding now at a time when the public purse strings are under almost unprecedented strain.

It is against that backdrop that the Association of Greater Manchester Authorities (AGMA), comprising 10 councils across the region, has become one of the first bodies in England to examine the scope for a region-wide TIF programme, realising the potential that such development can bring. With the PPP sector buzzing with the possibilities laid down by TIF, surely Greater Manchester is set to pave the way for other councils to make use of this innovative form of financing? Is TIF the silver bullet to counteract the Coalition's spending cuts?

The challenge runs deeper than such questions, believes Sir Howard Bernstein, the Chair of AGMA's Wider Leadership Group and Chief Executive of Manchester City Council. "[TIF] is about promoting development, but it should be about promoting a growth agenda for the whole city," he says. "It should not be about promoting gap funding schemes, because local authorities have got the ability to borrow now. It should be about promoting inherently viable investments that the commercial markets, in their currently straightened circumstances, can't fund. It should also be about how you actually ensure that the people who are going to be employed are people who are not part of the labour market. How we employ and create jobs should also be related to how we fill jobs. It should not be a process that is just about business expansion; it should also be a process that is about securing more participation for our workforce.

"When you look at TIF in that way," he suggests, "you are not just receiving increases in tax or business rates going forward, you are also capturing savings in budgets going forward because we are helping people who are currently calling on significant amounts of public resources and supporting them into being people who are contributing to the economy. That starts to create a very strong

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"We should have a strategy for delivery which is Greater Manchester-wide" Sir Howard Bernstein

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narrative with the Treasury and others that TIF is not just another more expensive form of public sector borrowing. We are also talking about increases in tax and about increases in business activity, rather than redistributing the existing economic base."

So it is not, Sir Howard argues, simply about one side of the balance sheet, but about both sides. The approach is geared towards the increasingly important issue of creating jobs but also making sure that people who are out of the labour market, whether they have been forced out or allowed to withdraw, are able to come back in.

Attempts to explain TIF typically dilute it down into an example, such as building a new shopping centre on derelict

ground. The site is regenerated by the development and paid for by business rates collected once retailers enter the new premises. Jobs are created and people go to spend money. It uses tomorrow's money to build today.

But AGMA's TIF approach is not quite that simple: "For us, we see some form of business rate re-localisation, whether you call it TIF or not, as being an important part of an overall toolkit for managing different but complimentary sets of issues," asserts Bernstein. "It needs to be looked at alongside business support, access to market investment, what we need to develop in terms of integrated reformist programmes around supporting people getting into work and how we integrate housing and planning and transport strategies in that overall mix. It is not just one thing.

"What we have done is actually come up with a very clear, integrated approach, called the Greater Manchester Strategy. My line and our view in principle, although there is still a lot of work to do, is that if we have got an economic strategy, which is Greater Manchester-wide, then we should have a strategy for delivery which is Greater Manchester-wide."

For Bernstein, therefore, TIF is not an ideological 'catch-all' concept: "You have got to deal with the productivity side of the marketplace in order to secure the maximum increase in your tax. By doing that, not only are you reducing the displacement factor and increasing the level of tax take, you are also creating, for the wider public sector, significant savings that can be captured in the very short term. We think ours is a very strong, intellectually-based approach that is designed to underpin our geo-economic strategy. It is not a ruse to circumvent things; it is actually designed to drive benefits at all levels of the equation."

Given that AGMA's decision to embrace TIF is about increasing options, how does a body that includes councils as diverse as Wigan, Stockport and Oldham decide on which projects go where? It's down to strategy, Sir Howard says.

"Productivity can be measured in all sorts of ways and our local politicians would rightly say that they also want to measure productivity in the context of how many unemployed people we are bringing back to the labour market. If we align that with our Greater Manchester Transport Strategy, which is seeing new public transport connections being made over the next few years, we are going to be able, having the additional flexibilities and powers around skills and elsewhere, to start to address how we connect people throughout Greater Manchester to jobs that are being created in Greater Manchester. We think it is a very powerful narrative and policy approach."

And Sir Howard dismisses suggestions that the decision to go for a Greater Manchester approach flies in the face of the government's localism agenda.

"Greater Manchester is a lot more local than central government," he observes. "What we have actually got to do is create a focus on place. That is no different from what the government seems to be saying, which is go to the level of authority where it is most appropriate. For us, in this case, that means the city region.

"What we are doing is showing how localism can be developed in practice, which is placing effective local government and the role of local government in creating places where people want to live, work and invest at the very heart of that strategy."

He adds: "We are looking at transport schemes and investment, which is linked very closely to productivity enhancement. There are other initiatives that we think in principle could fit within the overall framework. What we are also doing is bringing forward the Evergreen JESSICA investment model, which will support public sector intervention through investment through particular schemes as well. It is when you align all of those things together that you actually get the overall value, which is more and more sustainable jobs, less worklessness, less public sector spend, less demand for high dependency services, and more prosperous, more productive, more value added economy."

And Bernstein is convinced that by using every financial tool available to develop the Greater Manchester region, it is UK Plc that benefits: "We increasingly find ourselves serving the biggest sectors of our economy in competition with other European centres, all of whom who have got city region focus, all of whom have got access to better, more incentivised forms of funding than we have had in the past.

"We do not see ourselves in competition with Leeds or Birmingham, or even London. Fundamentally what we are about is doing the best job for Greater Manchester and we believe by doing that, not only do we get our fair share of North of England investment, we actually improve the capacity of UK Plc to compete effectively with European or other global markets."

There are clearly different opinions as to the benefits entailed in using TIF as a way of paying for regional regeneration. TIF enables some projects to go ahead and others to move from the 'hoped for' to 'planned for' phase, but like any procurement vehicle, it needs to be considered on its merits and on the merits of the project that it might help finance. The approach taken in Greater Manchester, therefore, shows a willingness to embrace any option to improve infrastructure and services, but only if it is the right option for the right project.

Sir Howard Bernstein
Chair of the Wider Leadership Group, Association of Greater Manchester Authorities; and Chief Executive of Manchester City Council

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The new frontiersmen

Leesman Managing Director Tim Oldman champions the need to redefine the concept of the 'workplace', in the interests of developing a more engaged, productive 21st Century workforce…

The role of the 'workplace' is changing. And facilities management professionals are faced with equally colossal measures of challenge and opportunity as a result.

Within weeks of taking residency, the Coalition Government broadcast a seemingly clear message about the role of the corporate workplace in driving a new age of real-estate sobriety. Chancellor George Osborne was reported to be taking a bold public sector lead by compressing more Treasury staff into his existing Whitehall office spaces.

Patently it is no longer realistic to approach the design of the 'office' as a two-dimensional puzzle combined simply of people and space. But were tales of Whitehall sardine tinning more a case of two-dimensional reporting than the crunching of the number crunchers?

'…it is expected that more and more cash-strapped private and public sector office-based employees will, employer willing, grasp at any opportunity to avoid the cattle-class commute to the office.'

The sweeping trend for open plan workspaces offers obvious savings in space allocation and resultant increases in occupant densities. But do 'low-enclosure' environments work for all? Is the de-cellularisation of the workplace impacting on satisfaction, engagement and productivity? No-one really knows. But of course the Chancellor's push may not simply point to higher occupant densities. More and more organisations are implementing 'new ways of working' strategies that seek dramatic increases in occupant utilisation, rather than simply looking to pack ever-increasing numbers of desks into existing spaces. With many individual industry studies reporting workplace utilisation typically peaking at an appalling 65% occupation, more organisations will focus on how to see more of their real-estate desk positions utilised for more of the working week, as a quick and potentially rapid deployment efficiency gain. So perhaps the Whitehall drive is more of a three-dimensional efficiency puzzle that seeks to understand the relationship of people, space and – more importantly – time.

The Office of Government Commerce has of course been pushing for greater effectiveness amongst the government's £220bn estate for years, with their 2006 High Performing Property study well known amongst observers. That proposal called for government organisations to use data and performance benchmarks to influence strategy, planning and property decisions. It calls for a rationalised 'fit for purpose' government portfolio that it believed could deliver annual efficiency savings to the tune of 20%. So with technology advancements rapidly cutting the tethers that have previously defined from where employees can contribute, a new cross-generational nomadic employee is challenging the established protocols and will look to savvy business heads to back them in their own personal efficiency campaigns.

So does the public sector have the same appetite to keep pace with responsive business forced to consider more inventive and emergent work practices to help maintain a competitive advantage? And does government have the courage to publicly audit the resultant satisfaction of their occupiers, and focus, then, on where they can do better?

This is not about bean counting 'total cost of occupancy' austerity measures; it is about understanding that a happier, more satisfied employee is a more engaged employee. And that a more engaged employee will give greater discretionary effort, take fewer hooky 'duvet days', be less likely to jump to a better offer elsewhere and is, above all else, more likely to be a considerably more productive employee. In commerce, a happy, satisfied employee is therefore a more profitable employee. In the public sector, a happy, satisfied employee is surely a more effective employee.

But here, the UK is in danger of lagging behind the best thinking. Increasing numbers of European employees do not consider that they even need to be in an office setting to be satisfied or productive, with up to 60% suggesting that they would choose positions with a lower remuneration if the position had greater leniency and flexibility on the choice of where they worked. So in this knowledge economy, forget 'work' as a place you go. It is a thing you do anywhere in the knowledge landscape.

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Is the de-cellularisation of the workplace impacting on satisfaction, engagement and productivity?

As has been the way for perhaps a decade, the Dutch are seen by many as some five years ahead of the majority of British businesses in creating structures and systems that allow their staff to work more flexibly. Microsoft's new Amsterdam 'activity-based working' environment by genius London-based designer Sevil Peach blazes the way.

At Microsoft, the objective was to pass employees the freedom to use a new workplace landscape, while still holding them accountable for results. Sales at the Dutch subsidiary have increased by 51%; real estate costs have been reduced by 30% (saving $644,000 per annum); Microsoft was named best employer in The Netherlands and has realised significantly improved employee satisfaction. There have also been reduced IT, administration and communication costs yet no-one has an assigned desk and 800 people use the building as their other 'home'. Unsurprisingly, 40,000 business people have visited to look and learn.

Here, the impact of the economic slowdown is evident in many property strategy reports, but our own research amongst 262 businesses for the British Institute of Facilities Management showed that 71% positively supported the notion of the corporate workplace as 'a strategic asset in the development of the organisation', suggesting that the majority of businesses do value the contribution of the workplace in supporting organisational development. But do business heads really see the workplace as an asset?

Government spending reviews may also indirectly offer other more direct triggers. With rail operators expected to increase fares into the main metropolitan centres by 26% in real terms over the next three years and with plans for an extra 2,000 new train carriages now on hold, it is expected that more and more cash-strapped private and public sector office-based employees will, employer willing, grasp at any opportunity to avoid the cattle-class commute to the office. Increasingly then, managers will have to shift from traditional 'supervision' relationships to those with a foundation in 'trust'.

This comes down then to trusting more contributors with considerably greater freedom to choose the location best suited to the particular task they are undertaking. This may be in a 'free address' workplace like Microsoft, or it may be in an 'elsewhere' location, away from the office – out of sight of management.

So can more businesses follow Microsoft, experimenting with workplace environments that provide a mix of settings that allow users to move more freely around inside the workplace? This 'activity-based working' concept provides a workplace landscape that can almost intuitively respond to the tidal flow of migrant occupants. So a new-way-of-working strategy is really a 'flexible-location strategy', not simply a 'home-working strategy'.

Then can a traditionally rather lethargic, un-inventive British public sector cope with what a post-recessional recovery might bring? What shape will the most inventive and responsive real-estate structures take and who will be the key players in defining that landscape? Design of good workplace environments has long been a creative innovation agenda, managed by skilled and experienced right-brain practitioners. But an age of austerity calls for a new champion with greater left-brain wiring, who is focused instead on how to optimise the satisfaction and engagement of the occupiers of workplace.

History and experience suggest many facilities managers will struggle to transition toward a role that is about as different as a hotel concierge and a school caretaker. But without doubt, facility managers with courage do have the most incredible opportunity to contribute now to business strategic direction, as business and public sector heads need frontiersmen thinkers to step forward and take the lead in carving out territories in the uncharted new knowledge landscape.

Tim Oldman
Managing Director

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Understanding the needs of each local area is vital in order to tailor specific enabling support and services

of registered providers in investment plans has been stronger in some areas than others; however, delivery of the Affordable Rent programme as part of local plans means it is essential to have registered providers around the table.

Another key element of our role will be to use our local and national relationships with the private sector to secure private investment and delivery for the benefit of local communities. We will be working with local places to enable access to new sources of private finance at the maximum level that is sustainable, so that public investment is only made when the private sector is unable or unwilling to invest. We also draw on other public private initiatives such as the Private Rental Sector Initiative and our joint venture with the Royal Bank of Scotland.

The HCA will, therefore, need to become a different organisation to the one established in 2008. The agency will be a smaller, more strategic agency going forward, but with an arguably more important role than ever. We are poised to take on the economic regulatory function of the TSA, which will be key to delivering the new affordable programme, and in alliance with local authorities to help them shape their LIPs.

We have reorganised our regional structure with the previous eight regions now becoming five operating areas, made up of North East and Yorkshire, North West, Midlands, East and South East and South West. The HCA's London region will be transferred to the Greater London Authority as part of government plans to move investment decisions to the mayor. This reorganisation aims to improve efficiency while remaining well placed to support the work of local communities.

The coming months will present challenges, but I think they will also offer opportunities to demonstrate how we can add value to the delivery of the best housing and regeneration outcomes for local areas. We want to be the agency local authorities can come to for help in creating great places in which people want to live and work for years to come. The process of change has only just started, but I am confident that we have the right mix of skills and expertise to achieve what is needed.

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Closer to homes

British Property Federation Chief Executive Liz Peace shares her thoughts on the course of action the Coalition Government needs to take to reverse historically low house building levels…

For many years it has been said that an Englishman's home is his castle. But with house building at lows not seen since World War II, it could also be said there are now fewer and fewer castles to go around.

It is clear that Britain needs new homes. But after the burst of the property bubble, and against a backdrop of spending cuts and economic uncertainty, how can the new government make sure that enough new housing is built in the coming years?

The Coalition has argued that regional targets, rather than getting bricks and mortar on the ground have actually turned communities against development and made the planning system a more confrontational rather than collaborative process.

To remedy this they have scrapped 'top-down' targets and, as we have seen from the publication of the Localism Bill, are intent on turning the planning system on its head and working from the bottom-up through a network of locally conceived Neighbourhood Plans.

To work, of course, this system needs incentives. And this is where ministers are gambling on the New Homes Bonus tipping the balance in favour of development.

By giving councils six years' worth of council tax – with an extra bonus for giving permission for affordable homes for each new home built, there is no doubt that councils will feel the benefit, particularly when being asked to cut their spending by more than one-quarter over the next five years.

However, if the UK is to meet its housing need, we would argue that all types of housing must play their part. A rented flat or council house is just as much a home, or even a castle, as those that are owner occupied.

Specifically, we believe that the private rented sector has great untapped potential to deliver new homes, provide jobs and help to safeguard the economic recovery.

Large institutions, such as pension funds, have for years explored ways of building up a large-scale, professionally-run private rented sector – something that has been commonplace for centuries in many other European countries – and with a gentle nudge from government could make up a significant part of the solution to our housing need.

What is clear is that homeownership is fast becoming an unattainable ambition for many families. Mortgage lending has been severely constrained since the banking crisis, and may yet be for some time to come.

And in the longer term, an expanding population will bring its own pressure. The Office for National Statistics estimates that we will need to house 65 million people by 2020, of which nearly 12 million will be below the age of 30. Many of these people, often first-time buyers, look set to be squeezed out of the market by a chronic lack of supply.

Some in the development industry have argued this has not been helped by one of the government's first significant acts: the abolition of Regional Spatial Strategies, where those often unpopular regional housing targets sat.

So unpopular were they that 182,000 notional homes have been taken out of the planning system since, with councils using the opportunity to discard many developments that did not enjoy local support.

Many in the development field have also complained that the fall out has been unease and uncertainty, among investors and planners alike in a housing market where funding is already sparse.

What is undoubtedly true is that businesses crave clarity. The development industry has shown it can adapt to almost anything as long as the rules are clear. We hope and expect that the framework around which planners must decide where we build homes will fall into focus more clearly as the Localism Bill makes its way through Parliament.

Of course, the New Homes Bonus is already up and running; almost £1bn of funding has been put aside to reward local councils who push ahead with new housing developments.

In the past councils have received little of the extra council tax from new homes, but have still had to provide services for their residents. The hope is that the New Homes Bonus can be used as an incentive to create local backing for development.

There are, however, concerns that communities in areas of high demand will profit from the fund and leave others short. Put simply, economically disadvantaged areas are likely to have fewer available jobs and so less demand for new homes. The fewer homes get built, the further the community will fall behind its more prosperous neighbours.

Will the New Homes Bonus provide the necessary incentive to create local backing for development?

They may also suffer due to the fact that the bonus is to be paid on the net increase of homes, meaning the regeneration of run down housing estates will go unrewarded, whereas it will prove even more lucrative to build on green belt.

Again, because it is paid according to the value of council tax, rather than per unit, poorer areas where property values are lower will have to build more homes than richer neighbours to see the same return.

For all the challenges it poses, it is clear that this new initiative has potential. However, we would argue that the key to unlocking new development is to encourage new players into the market.

One solution is institutional investment in the private rented sector. Political commitment supported by modest investment in tax terms could help deliver the transformational change to make this a viable option, and, we would argue, would pay dividends through the activity it would generate across the economy.

At present, it is difficult for institutional investors to move into the sector on a significant scale. Tax issues remain a significant barrier to entry. Although politically difficult in the current climate, we would urge government to disaggregate Stamp Duty on bulk purchases of residential property.

At present, Stamp Duty Land Tax is paid on the total value of residential portfolios, attracting a far higher rate than if the properties had been bought individually. This penalises the bulk purchaser, and is hampering investors from building the scale of portfolio needed to see an attractive return.

Real Estate Investment Trusts could also provide a vehicle for large-scale residential investment, and it would take only a few, mostly very technical, tweaks of the REIT regime to make this a realistic possibility. And aside from these regulatory changes, it would be heartening to see ministers help to lift some of the stigma that remains around the private rented sector. Renting has some significant advantages over homeownership, from the lack of mortgage debt accrued by renters to the freedom of mobility it grants.

So, it is clear that Britain needs new homes, and while there is much to recommend government's approach, we would argue a more radical cultural shift is needed: the ideal of home ownership, the Englishman and his castle, cannot endure upon its pedestal if we are to provide homes for all in the UK who need them.

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Carbon confusion

A green economy must remain a priority, despite the mixed signals emanating from government in the wake of the spending review, writes Landmark UK Deputy Managing Director David Mole…

The Coalition Government's recent Comprehensive Spending Review (CSR) caused consternation for many public sector workers, with the announcement of cuts in public expenditure and possible downsizing of government bodies, and in this period of fiscal upheaval it would be easy for organisations to overlook some of the key announcements made regarding the UK's green agenda.

For many, the CSR presented rather mixed messages regarding the future of the UK's low carbon economy. It was clear that the government has big aspirations for dealing with climate change and set out a number of new initiatives for achieving its objectives. However, some observers felt that the CSR may not have gone far enough in dealing with the UK's environmental responsibilities.

Among the key measures introduced by the government was the announcement that a green investment bank was to be set up, with funds of around £1bn and possibly more to follow from future asset sales, to invest in green technology. As well as supporting carbon capture and storage, the Renewable Heat Incentive and the Green Deal will work to address energy-efficiency in homes, all of which will help create green jobs and growth of the low carbon economy.

One of the most prominent announcements made in the CSR was that the government would be keeping revenues raised from the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, instead of recycling the money back to the organisations taking part, with no guarantee they will be spent on environmental initiatives. This was followed by Secretary of State for Energy and Climate Change Chris Huhne's most recent declaration to a CBI conference this November (2010) that the CRC scheme as a whole will be delayed, with the first sale of permits to cover energy use now taking place in 2012 as opposed to 2011.

There is evidence that UK industry has started to get to grips with its CRC obligations, with a high number of businesses and public sector organisation registrations being recorded. Recent estimates suggest that there are still approximately 300 businesses of the 4,000 required to register who have not done so to date.[1] However, when the CRC was initially announced, many observers feared that this number would be a great deal higher. It is no surprise, therefore, that organisations now feel somewhat dismayed by these most recent government announcements.

The government has also pledged to simplify the CRC and listen to organisations in striving to make the process work better, and has since launched a consultation, closing this December (2010), to try and address these points. The Department of Energy and Climate Change advised that the consultation will use stakeholder feedback to review the operation and design of the scheme. The proposed amendments are primarily focused on extending the introductory phase and postponing the first allowance sale of phase two, but it will also facilitate potential future amendments as part of a broader simplification review.

Chris Huhne: The green journey

In a speech to the Local Government Association in July, Secretary of State for Energy and Climate Change Chris Huhne advised: "Our task is to create the framework for a move, over the next four decades, to a low carbon economy. We have to meet the challenge of climate change, to establish energy security and to create new jobs, new export opportunities and shared prosperity. This will require a radical transformation of the British economy, society – in fact all of us, local and central government, devolved administrations, local communities, Whitehall and Westminster, have a role to play. We can only meet this challenge by working together."

Bringing local authorities along on the green journey is going to be a key part of Huhne's role in the coming months. Councils might feel they are being squeezed from every possible direction, and yet they have a responsibility to do all they can to play their part in transforming the UK's standing on issues such as energy-efficiency, recycling and renewable energy, all of which are central to a green economic future. It forms part of the Coalition vision to give power back to local government.

"The Coalition's programme for government makes our commitment to decentralisation clear," Huhne stated, reiterating stated plans for a 'radical devolution of power and greater financial autonomy', including giving councils a general power of competence, whilst 'tearing down the structure of centrally set targets, and returning genuine power to local authorities'.

The Minister acknowledged the difficulties of implementing green policies in an age of austerity, adding: "of course you all understand the acute financial constraints we are working under. Even if we wanted to create new responsibilities for local authorities, we don't have the money to give you to fulfil them.

"But at the same time everyone here understands the overriding urgency of tackling climate change. We have, through the Climate Change Act, a legally binding requirement to reduce the UK's carbon emissions by 80% by 2050. What we need to do now is to construct a new partnership between local and central government, which enables us to meet these goals in the fastest and most cost-effective manner possible."[2]

The fact remains that CRC is a legal obligation for eligible organisations, so it is important that participants continue to comply with the existing CRC scheme as laid out in the current legislation, and that the Environment Agency continues to provide support to participants with their CRC compliance. Whilst the direct financial incentive has been removed, organisations still need to ensure that they complete the process accurately, as there are heavy financial penalties for those who fail to do so.

Organisations will need to focus more than ever on recording and delivering the necessary data as efficiently as possible, particularly in the public sector where widespread job cuts are likely to leave staff and resources stretched. The introductory phase provides the perfect opportunity for organisations to gain experience on reporting and complying with CRC, before the purchase of allowances from April 2012.

It should also be remembered that CRC could still yield financial rewards. Performance in the CRC league tables will impact on reputation and in the long term this can have a positive effect on the bottom line. What is more, identifying areas of high carbon use can help to identify potential areas where cost savings can be made. Smart companies could track down areas where they can reduce energy – for example, the Carbon Trust calculates that by simply turning lights off in areas that aren't being used, businesses could shave 15% off their energy bills. Despite the changes to the scheme there are still clear benefits available to those organisations sharp enough to maximise the opportunities ahead.

It is clear that the Coalition Government has big ambitions for the UK's green economy. Whilst many departments face deep cuts, the Department of Energy and Climate Change faces one of the smallest overall cuts of just 5% per year. There also remains a commitment to international climate change of £2.9bn. The new green initiatives introduced will go some way to achieving the government's lofty ambitions, but removing incentives for the CRC does not seem to fit as neatly with the government's low carbon rhetoric. It is vital that organisations continue to work towards trying to meet these green objectives to achieve a low carbon economy. If we do not move forward in this area, the UK will ultimately lose out to other emerging markets. When the European Union is looking to move towards a more knowledge-based economy, failure to target new technologies as one of the drivers of future prosperity will hurt the UK in the long term and affect its ability to compete in an increasingly global market.

[1] www.enworks.com/unregistered-CRC

[2] www.decc.gov.uk/en/content/cms/news/lgaspeech/lgaspeech.aspx

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Hitting the mark?

Covanta Energy's Managing Director Malcolm Chilton assesses whether government targets for zero waste are attainable in their current guises…

In recent times, there has been a fundamental shift of emphasis in government policies towards waste. In the last couple of years, the various administrations across the UK have moved to put in place strategies to deliver 'zero waste' (by which, in effect, they mean zero waste to landfill). The devolved administrations in Scotland and Wales took the lead and have in place detailed zero waste strategies. The new Coalition Government in Westminster has pledged to adopt a zero waste to landfill strategy for England. It has launched a wide-ranging review of waste policy to give effect to that pledge and the initial indications of how it will be achieved are expected to be published in the first half of 2011.

I welcome the direction of travel of UK policy. It clearly supports the application of the waste hierarchy since landfill is the least desirable of all the options for dealing with the hundred million tonnes and more of municipal, commercial and industrial waste produced every year (see Fig. 1). Working to reduce the amount of waste that we produce in the first place is important, but there is little hard evidence that this can be driven by policy initiatives rather than by wider economic forces. Driving up recycling rates has also been an important part of the transformation of the UK's waste management practice, bringing us much closer to comparable economies across Europe. But there are economic and environmental limits to how far it is practical and desirable to push recycling. None of the strategies adopted by UK administrations have adopted targets to recycle more than 70% of municipal waste, and many industry and economic commentators suggest the realistic level attainable over the next decade could be significantly below this.

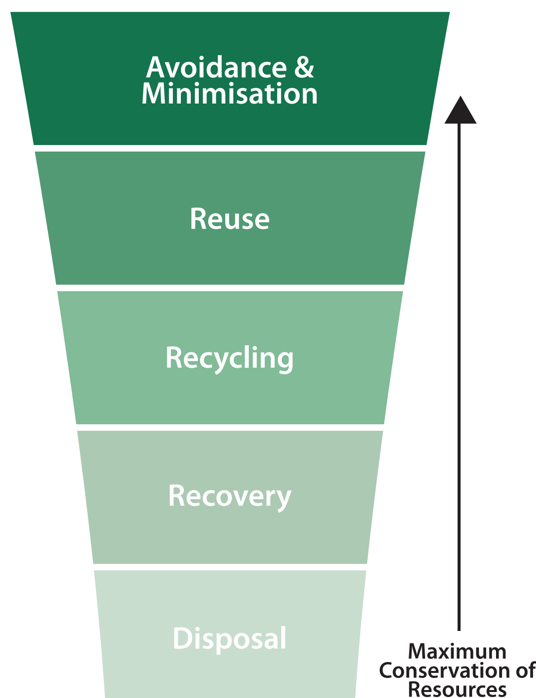

Fig. 1: The waste hierarchy

In this context, there is a clear and important role for EfW in ensuring we divert as much waste from landfill as possible. With recycling of combustion residues from EfW processes now routine, as little as 3% to 4% of input volumes currently go to landfill in the form of air pollution control (APC) residues. Work is well advanced to develop safe and secure methods of recycling these materials and I believe we will soon reduce output to landfill to as little as 1%. So, in technical terms, we can get very close to the zero waste visions.

> 'As far as moves towards more sustainable waste management are concerned, the detailed spending plans of the Scottish and Welsh administrations are revealing. The overall funding for waste initiatives in both cases is small.'

It is acknowledged, however, that getting there will require substantial investment in new waste treatment infrastructure. Estimates put the level of investment required at between £12bn and £20bn just to meet the 2020 landfill diversion targets of the EU Landfill Directive. This directive only requires that by 2020 landfill of biodegradable municipal waste is reduced to 35% of 1995 levels. This is a long way short of the zero waste vision and suggests the total investment will need to be substantially greater.

	2010/11	2011/12	2012/13	2013/14	2014/15	Cumulative real growth
UK						
Resource DEL	326.6	326.7	326.9	330.9	328.9	-8.3
Capital DEL	51.6	43.5	41.8	39.2	40.2	-29
Scotland						
Resource DEL	24.8	24.8	25.1	25.3	25.4	-6.8
Capital DEL	3.4	2.5	2.5	2.2	2.3	-38
Wales						
Resource DEL	13.3	13.3	13.3	13.5	13.5	-7.5
Capital DEL	1.7	1.3	1.2	1.1	1.1	-41
Northern Ireland						
Resource DEL	9.3	9.4	9.4	9.5	9.5	-6.9
Capital DEL	1.2	0.9	0.9	0.8	0.8	-37

Table 1: Comparison of spending settlements (£ billion)

There is more than a little irony in the fact that the new policy imperatives of moving towards zero waste have coincided so closely with the worst global financial conditions for over 70 years. The direct consequence of the near collapse of the global banking system and deep recession has been a massive retrenchment in the public finances.

The Coalition Government has made clear that its overriding priority during the life of this parliament is a reduction of the structural deficit in the public finances. October's Comprehensive Spending Review (CSR) set out spending plans that will reduce total government spending by around £80bn a year. The waste sector has not been immune from the impacts of these cuts. For example, on the day the CSR was unveiled, the Department of Environment, Food and Rural Affairs (Defra) announced that seven long-term waste PFI contracts in procurement in England were being cancelled. At a stroke this removed around £900m of public funding support for capital investment.

> 'There is more than a little irony in the fact that the new policy imperatives of moving towards zero waste have coincided so closely with the worst global financial conditions for over 70 years.'

Looking closely at the CSR settlements for the different jurisdictions shows some interesting differences of approach. Table 1 summarises the broad revenue and capital spending settlements for the Scottish, Welsh and Northern Ireland administrations (expressed in terms of Departmental Spending Limits (DELS) over the CSR period and compares them with the overall UK settlement.

There are a couple of broad points that can be drawn out of these overall figures. The most obvious is that the levels of reduction in future spending are swingeing across the board. In revenue terms, the devolved administrations have to some degree been protected by the application of the Barnett Formula, resulting in slightly lower cumulative real-term cuts in revenue spending in Scotland, Wales and Northern Ireland compared with England. (Given commitments by the Coalition Government to review the provisions governing the ability of the devolved administrations to raise taxes locally, there may be questions about how long the Barnett protections will remain in place.)

The more striking numbers relate to future capital spending programmes across the devolved administrations. For the UK as a whole, capital spending will reduce by 29% in real terms to 2014/15. The reductions in Scotland, Wales and Northern Ireland are substantially greater, reaching 41% in Wales.

As far as moves towards more sustainable waste management are concerned, the detailed spending plans of the Scottish and Welsh administrations are revealing. The overall funding for waste initiatives in both cases is small. A few specific examples will suffice to illustrate this.

The draft 2011/12 budget of the Welsh Assembly Government (WAG) emphasises its commitment to continue to work towards zero waste. It notes that across Wales's 22 local authority areas, 40% recycling has been attained through sustained public investment. It notes that: 'We are continuing to back this up with support

for new treatment plants and collection facilities. Within this budget there is an additional £10.6m capital to support the implementation of Anaerobic Digestion (AD) treatment plants.'

However, WAG's detailed spending plans reveal that total capital spending on environmental projects (of which, of course, waste management is just a subset) in the current financial year waste at about £8.3m. For the forthcoming three years, the equivalent figures are:

- 2011/12 – £4.6m
- 2012/13 – £4.6m
- 2013/14 – £3.85m

That gives a total of a little over £13m of capital investment over three years. This implies that the additional support for AD will amount to over 80% of total Welsh environmental capital spending.

A similar picture emerges in Scotland. The Scottish Government's draft budget for 2011/12 notes that: 'It is essential we maintain the momentum and commitment towards achieving a zero waste society. By supporting collection systems, specifically food waste, as well as supporting anaerobic digestion infrastructure, we will be able to generate sustainable energy and deliver reductions in greenhouse gas emissions.'

'One of the most critical factors in whether this enthusiasm for the market translates into the reality of new infrastructure will be the ability of the public regulatory services to deliver the necessary consents and licences in a timely fashion. Here we are in real danger of running into problems that will arise out of the part of the drive to reduce public spending...'

To that end, the Scottish Government has found additional resources for its zero waste programme. Spending in this area will increase by £2m from £24.4m in 2010 to £26.4m next year.

These commitments are welcome. But they need to be considered in the context of the overall challenge. There are two significant points to make in this respect.

The first is that, against the long-term need to invest many billions of pounds in new waste treatment facilities, the odd tens of millions covered by these programmes are relatively inconsequential. What these spending plans underline very forcefully is that the role of public finance in delivering the necessary new infrastructure will be marginal and the main burden of investment will fall to the private sector.

The focus of these public programmes on AD reinforces this point. AD is suitable for some very specific waste streams, notably food wastes, where it is cost-effective to collect them separately, and agricultural wastes. These represent a relatively small proportion of the overall waste stream, and the fact that the devolved administrations are focusing their resources in this area reinforces the conclusion that they are relying on the private sector to come forward with development and investment proposals to deal with the much larger volumes of municipal and commercial waste for which AD is not an effective solution.

The administrations undoubtedly are right to take the view that the private sector has the capacity to step in to make the levels of investment required. Many companies have already invested millions (if not billions), with more projects and investments to follow.

One of the most critical factors in whether this enthusiasm for the market translates into the reality of new infrastructure will be the ability of the public regulatory services to deliver the necessary consents and licences in a timely fashion. Here we are in real danger of running into problems that will arise out of the part of the drive to reduce public spending focused on reducing head counts in key regulatory bodies.

For example, the Scottish Government's draft 2011/12 budget envisages a reduction in the budget of the Scottish Environmental Protection Agency (SEPA) from £44.3m in 2010 to £39.4m next. That's a reduction of £4.9m (around 12%), which is more than twice the increase in budget allocated for support of waste management. This is bound to result in substantial job losses that may, in turn, impact on SEPA's ability to process environmental permit applications in a timely fashion. We already have some evidence of this problem in England where the Environment Agency has not been able to process permit applications within the prescribed statutory periods.

This raises an interesting question for policy-makers. If – as the evidence of the CSR and the budgets that underpin it affirms – it is accepted that the overwhelming bulk of new investment will come from the private sector, what should be the priority for the allocation of the limited public funds available? In effect, will the objective of making the transition to zero waste be better backed by putting funds into support for niche sectors or by ensuring regulators are fully funded to be able to deliver the necessary consents to facilitate the private sector's investment?

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France moves forward

Pierre Van de Vyver, Director of the Institut de la Gestion Déléguée, tells *PPP Journal* how public private partnerships in France are progressing despite the economic downturn…

The French approach to PPPs has been quietly impressive. But despite the positive stories to come out of the country in terms of improved public services, take-up of PPP as a procurement method has at times been disappointing. Here *PPP Journal* talks to the Director of the French PPP Institute Pierre Van de Vyver about the sector's development in recent times.

How strong is the French PPP sector?

In France, the PPP sector is important as it stems from a secular tradition. For the French Institute for PPP, contractual PPP refers to all kinds of long-term contracts, used either to transfer the right to operate a public service or an infrastructure to a delegate company, or to grant some of the main tasks contributing to the establishment or operation of such a public service or infrastructure. Some common characteristics of these contracts have been identified – the projects are more or less complex, the partners, public and private, may share the risks, the infrastructure may be totally or partially financed by the private sector, and the operator can be remunerated by the users or paid by the public body. Therefore, several forms can be used such as concession, long-term leasing or temporary private occupation of public property.

How has the sector managed during the course of the global crisis?

Since the beginning of the economic crisis, PPP has been considered one of the most convenient tools to prevent the collapse of economic activity. Therefore, in addition to the improvement of the legislation applying to partnership contract[1] – the equivalent of PFI in French legislation – different legal dispositions were introduced in order to promote the use of PPP. These included financial guarantees from the state, the possibility of partial public financing, fiscal and procedural harmonisation between the different types of PPP contracts and the possibility of financial closing with the preferred bidder only.

In which areas are PPPs particularly strong in France?

In France most contractual PPPs concern services of general economic interest, especially those paid by the users. On average they cover two-thirds of the economic activity and are dominant in highways, electricity and gas supply, district heating, water supply, public transportation and car parking.

Moreover 'partnership contracts' are developing well. Nearly all of the new projects decided either by the state or by regional or local authorities – such as hospitals, high speed railways, prisons, stadium, multipurpose halls – refer to these kinds of contract.

In which direction do you feel the French PPP market should go?

In spite of thousands of contractual PPPs awarded each year in France, the issue of PPP contracting must be supported and improved. Political, ideological and institutional difficulties still remain. PPP contributions to a sustainable public administration should be highlighted, especially in those sectors where PPPs are not used. We think that for future years a wider use of PPPs can help improve public human resources management.

Looking ahead, what does the future hold for PPPs in France?

At present, contractual PPPs are insufficiently known and recognised as an efficient driver of economic growth and performance. They offer a global contract with interfaces between tasks taken into account, a full cost approach where risks are covered, a guarantee of service quality, respect for contractual deadlines, the creation of socioeconomical utilities and high level knowledge, know-how development and opportunities for a global market with worldwide exportations.

France has winning cards in that field but they are not promoted widely enough in France and abroad. Everyone should make more effort to use those high-quality tools. This will only happen if confidence and recognition of mutual interest can be established among all the stakeholders. Public policy evaluation[2] or notation by agencies should reward public authorities that use contractual PPP.

[1] Law of 28th July 2008 amending the ordinance of 17th June 2004

[2] 'Doing business' by the World Bank

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An orange boom?

The future of PPPs in the Netherlands looks rather rosy at present, according to PPS Netwerk Nederland Director Harry Sterk, talking to Editor Michael Thame…

Since creating a PPP knowledge centre in 1999, the Dutch government has looked to take on a pragmatic approach to the possibilities available. Largely an apolitical issue with no clear faction of the political spectrum ideologically opposed to the concept, PPPs in Holland have evolved over time, little affected by the financial crisis, to where they are today: adding locally led, smaller scale projects to the larger ones already instigated by the government.

Director of PPS Netwerk Nederland Harry Sterk tells *PPP Journal* Editor Michael Thame how his country is increasingly using PPPs as the procurement method of choice.

How strong is the PPP sector in the Netherlands?

The PPP sector is developing pace and momentum, mainly due to the fact that Holland at the moment is not as rich as it was a couple of years ago, and that has been an obstacle for the PPP market. Although there has always been an abundance of money to realise all sorts of plans, nowadays public budgets are under pressure, yet people still have quite ambitious agendas to roll-out. So there is a need now for further 'professionalisation' and a need to find alternative financial routes to still realise ambitions. PPP has become more popular because if you have a project suitable for the PPP approach, then you can save money whilst maintaining the required quality levels.

How has the sector managed during the course of the global financial crisis?

The portfolio has been growing and the financial institutions have become a little more prudent. But I think we have weathered the storm because a PPP project really requires a lot of discipline amongst both parties. As such, if you have a strong case for PPP, then you have a strong case for finance. So ultimately projects have not really suffered from the financial crisis so far. The banks have become more stringent but we have not seen a decrease in flow – on the contrary.

In which areas are PPPs particularly strong in the Netherlands?

The two strongest areas for the government are infrastructure, such as roads and tunnels, and the projects initiated by the Government Building Agency. We are seeing a trend towards more local initiatives initiated by the municipalities; projects such as schools, town halls and smaller PPP projects generally – a trend we are seeing over time. The national government is expanding its number of projects and they were the first to start PPP projects; it is increasingly becoming second nature for them now that experience has built up. Again, due to the financial crisis and tighter budgets, we see a new wave of local municipalities who are much more eager to find out if and where PPP solutions can help them in realising their projects.

'PPP has become more popular because if you have a project suitable for the PPP approach, then you can save money whilst maintaining the required quality levels.'

In which direction do you feel the Dutch PPP market should go?

The number of projects has been limited by the causes already indicated. We have had a lot of money in the past so the appetite has been pretty modest. We now see quite a significant flow of new projects hitting the surface combining greater expertise to create more exemplar projects.

Looking ahead, what does the future hold for PPPs in the Netherlands?

The government has calculated that it gained €600m in savings through current PPP projects. That is still very minimal in a way and we have done some new projections together with the Ministry of Finance where we talk about savings potentially way in excess of €4bn on a yearly basis. That is the first target to hit. Now we are seeing more and more projects popping up so we feel we can realise this potential in the near future.

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Industry leading civil engineering…

…within transport infrastructure…

Our company can boast over 60 years of history. Once state-owned, in 1995 the company was transformed into a joint stock company, Przedsie˛biorstwo Robót Komunikacyjnych S.A., and subsequently since July 2007 we have been operating under the name of Feroco S.A. with its registered office in Poznan, as a member of the group of companies owned by Zbigniew Jakubas.

We are a professional company carrying out overall civil engineering works within the scope of a wide comprehension of the construction of transport infrastructure in the areas of track, tram, and ground engineering works.

The high quality of services offered by Feroco S.A. is guaranteed by the clearly defined mission of the company, as well as the objectives of integrated quality and environmental management systems policy. In our activity we always follow the adopted mission and values. We earn recognition among our customers for high-quality civil engineering services, provided in a manner that is both staff and environmentally-friendly, and we owe our market leading position and customer satisfaction to the professionalism of our staff.

Environmentally conscious

Our policy of implementation and maintenance of an environmental management system in our company demonstrates the management's commitment and priority approach to environmental protection. We execute our projects in the most environmentally-friendly manner, with due care of:

- Protection of surface waters and groundwater conservation;
- Reduction of the emission of pollutants into the atmosphere;
- Protection of soil against negative impact of waste; and
- Efficient use of materials, energy and water.

One of the characteristics of our company's activities concerning environmental protection is the priority and support we give to those suppliers who, in addition to providing top quality services, apply fundamental rules aimed at the reduction of the negative impact of their activity on the environment.

Our activities

We have been involved in the execution of some of the biggest investment projects in Poland such as the upgrade of the railway lines and stations in the entire country (for example the Central

Main Railway Line, marshalling yards, the E-20 line, the E-30 line, the E-65 line); the completion of municipal transport projects (for example the Poznan fast tram line, the station over-line bridge – the so-called 'Dworcowy Bridge' – and the St. Roch's Bridge in Poznan). We were also involved in the construction of the A-2 motorway.

In over 60 years of operation, the company has completed:

- 1,700km of railway lines and tram lines;
- 1,600km of railway line electrification;
- 18km of bridges, flyovers and tunnels; and
- 2 million m^3 of enclosed structures.

In 2004, following the incorporation of our company into Zbigniew Jakubas's group, a new era began. The outcome of the newly adopted strategy was visible – in 2008 a consortium animated by Feroco gained contracted projects amounting to approximately PLN1.3bn. The company has been evolving ever since, expanding its activity and broadening machinery park.

2009 brought with it a further transformation of the company. This was exemplified by the deployment of the SAP system and with the commencement of the new office building construction.

With three-quarters of 2010 behind, the company already recorded the highest ever order intake and backlog of orders amounting to PLN1.5bn. After becoming the major player on the domestic market, our company has also started an expansion abroad, which we intend to materialise next year. The company is also considering some capital investments. Presently, our company offers a wide range of services, starting from small-scale activities through to large multi-sector, turnkey projects accompanied by financial engineering.

Feroco S.A. offers the following range of end-to-end services:

- Construction and upgrade of the stations and railway lines, as well as tram lines, including the following in particular;
- Execution of track works within the scope of railway subgrade, track layout and associated works;
- Delivery of overhead catenary system and electric power supply system; and
- Civil engineering structures and road structures.

Construction and upgrade of road structures, railway bridges and flyovers

- Demolition of the existing structures;
- Reconstruction and renovation, also including conservation requirements and technical viability; and
- Design and build of new structures.

Construction and upgrade of roads and highways

- Roadworks, including right-of-way groundworks (a highway, local and internal roads), drainage works, alteration of the existing roads within the scope of the layout conflicting with the highway;
- Finishing works.

Feroco S.A. is ready to meet new challenges and expectations of its business partners, and the coming years will witness the dynamic growth of the company and strengthening of its position on the market.

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ARIPA
ARQUITECTOS

An active force in PPP

One of the foremost architectural practices in Portugal...

ARIPA SA, founded in 1979, is one of the foremost architectural practices in Portugal, with 30 architects. Our principal objective is to design buildings; we outsource all other specialities whilst being responsible for the coordination. The health sector has been a core part of our activities; our recent work includes eight new hospitals among institutes and specialised clinics, health centres, research centres, as well as extensions and refurbishments of existing hospitals.

We have also been involved in other fields: justice, culture (Caldas da Rainha Cultural Centre photographed above), education, industry, housing, town-planning, strategic development and hospital planning. ARIPA plays an active part in public private partnerships in Portugal. The Cascais Hospital (50,000m^2), designed in 2008, is now open to public, and we are currently finalising the construction of the Ilha Terceira Hospital in Azores (46,500m^2). Outside the context of PPPs, ARIPA is involved in the building projects of Lamego Hospital (22,000m^2) and Guarda Hospital (79,000m^2), and is currently developing the plans for Madeira Central Hospital (220,000m^2).

When developing our studies, we prioritise the end-users. This is expressed through contemporary and aesthetic design and functional architecture, never forgetting the adaptation of the project to its social and economic context, whether within the scope of PPPs or in direct contracts with owners. ARIPA stands independently of economic groups so that it can take advantage of acquired know-how that is constantly updated through technological and creative advances, seeking spatial innovation and humanisation in architecture. ARIPA is a live and active force, both in Portugal and internationally.

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Cardiology Institute, Almada

Funchal Hospital

Cascais Hospital

New Barcelos' Hospital

Made in Spain

CECOPP President José Ángel Presmanes explains to Editor Michael Thame how the Spanish construction industry is diversifying to take advantage of the developing PPP service industry…

Spain's PPP sector has a long history and can boast a large number of well regarded overseas ventures by Spanish companies amongst its successes.

But the world is changing and the Spanish PPP sector is evolving to meet that change, as Jose Angel Presmanes, President of CECOPP – the Spanish Centre of Excellence and Knowledge for PPPs – explains to Editor Michael Thame.

How strong is the PPP sector in Spain?

The sector is very strong and has been for the 40 years that I have been involved in it. We built our first toll motorways in the 1960s and we have been increasing our experience ever since. We were the first country involved in PPPs and only the UK can now claim to have similar experience. For many years only Spanish private companies went to the financial world to sell their business and to 'buy money'. All the other companies that existed in the European PPP sector were publicly owned or government supported, but we were financing companies going to the financial markets throughout the world. That gave us a lot of experience not only in getting the money, but also in the ways in which we could give confidence to the market.

We made our system strong and resistant, and the financial world has belief in the Spanish capacity to work with concessions and PPP, as we have a long history of providing confidence to all sectors and all people in the business.

How has the sector managed during the course of the global financial crisis?

This financial crisis is one of the deepest, but it is not the first one we have coped with; we can still remember the petrol crises in 1973 and 1979. As a country we are now struggling a little, but the Spanish PPP sector is managing well because of its collective experience. It is an international sector and we have Spanish companies working throughout the world.

We no longer have important new works in the PPP sector within Spain itself because there are few affordable new projects, but the sector is working well because we have a lot of ongoing projects overseas. Spanish companies are winning tenders and making motorways in Canada and the US amongst other places.

We are also involved in a lot of new PPP works such as railways, energy, health and water. We are now expanding into services such as waste management in the UK and the United States. On high-speed rail, water distribution and supply, energy, and particularly new energies, we are in a very good position.

The market must gain the confidence of all the sectors involved from the start, and over the years we have enjoyed global success. As with any sector you enter, the system relies on the PPP groups who have the best ideas and the most managing capacity.

'…the Spanish PPP sector is managing well because of its collective experience. It is an international sector and we have Spanish companies working throughout the world.'

Looking ahead, what does the future hold for PPPs in Spain?

We will increasingly look to undertake activities abroad rather than in Spain, and we will be involved in many more sectors.

As we progress, we are increasingly involved in projects where construction is not the major component; instead it will be replaced by management of public services. A lot of services that do not need a big initial investment will be of interest because of the need to diversify.

Construction companies are reducing their importance as builders, and increasing in terms of management or promoting finance. We are seeing a great diversification of activities amongst Spain's major PPP companies.

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Putting technical to task

GAIA SA Project Development Company's Dimitrios Mamounis outlines how the Greek public sector's technical projects' implementation frame is evolving in the current economic climate…

The way in which technical projects are implemented in Greece is undergoing serious transformation due to the new economic environment and the legislative reforms imposed by the Greek government. One of the key reformations introduced in order to restructure the problematic public sector is the legislative reformation regarding regional and local government administration authorities in Greece. Since these authorities assign the majority of the contracts relating to technical projects, this specific reformation will undoubtedly affect the technical projects' implementation frame in the near future.

The new frame assigns to these authorities a wider variety of responsibilities that, in matters of technical infrastructure and environment protection projects, include:

- The completion of regional planning projects that will define land uses in the new administrative territories;
- The implementation of urban-planning projects that will provide the necessary plots of land for housing, business and leisure activities, create free spaces and reform degraded areas;
- The construction of buildings that will reinforce the infrastructure in the education, healthcare, culture and sports sectors;
- The implementation of transportation projects that will enhance the traffic conditions and reduce the commute time;
- The implementation of projects regarding water distribution, urban drainage, wastewater management and solid waste management;
- The promotion of renewable energy sources usage.

The new legislation also imposes a new set of rules regarding the fund and timetable management of the projects in accordance with the austere financial policy followed centrally by the Greek government.

The regional and local authorities should quickly adapt to a new environment that requires realistic goal setting, accurate planning and alternative sources of fundraising and tighter budget control.

In this new environment the public funds are constantly reduced and, therefore, authorities should turn to other funding tools, including resources allocated by the European Community for Cohesion Policy for the period 2007-2013, implementation of projects through public private partnership schemes or more specialised tools, such as JESSICA (Joint European Support for Sustainable Investment in City Areas). All these funding mechanisms are based on the competitive evaluation of the projects, which practically means that projects only qualify for funding according to their maturity level.

Subsequently, the maturity process of a project is the key phase of the whole implementation frame. In this context, every single aspect of a technical project should be defined with accuracy: the necessity of the project, its eligibility for funding, the design of the technical plans and specifications necessary for the construction phase, the risk management regarding the collateral problems that may arise, etc. Furthermore, relevant actions are also required during the construction phase in order to enable the authorities to conclude the project according to its specifications, timetable and budget.

Evidently, the regional and local government authorities should cooperate with consulting companies in order to deal with all the financial, technical and legal issues concerning the implementation of technical projects.

Furthermore, it is high time that the authorities established a new platform of cooperation with the construction companies in order to form the suitable conditions for the construction of projects through PPP schemes.

It is my belief that the implementation of the technical projects of the regional and local government authorities in Greece can only be realised through the close cooperation of the public and private sectors. And this cooperation and exchange of expertise can benefit both sides.

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